

DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

Report Number 06-15
August 4, 2006

Members, Committee on Audit

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CONTENTS

Executive Summary	1
Introduction.....	2
Background	2
Purpose.....	4
Scope and Methodology	5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Special Purchasing Issues	6
Small Business	6
Recycled Materials.....	6
Specific Contract Issues	7
Motor Vehicle Inspections and Use	8

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

AB	Assembly Bill
BOT	Board of Trustees
CMS	Common Management Systems
CSU	California State University
DFEH	Department of Fair Employment and Housing
DGS	Department of General Services
DVBE	Disabled Veteran Business Enterprise
EO	Executive Order
OSBCR	Office of Small Business Certification and Resources
PMCP	Policy Manual for Contracting and Procurement
SB	Senate Bill
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

The Committee on Audit, at its January 2006 meeting, directed the Office of the University Auditor to review the audit subject *Delegations of Authority*. Delegations of Authority was previously audited in 2001.

We visited the California State University, Long Beach campus from April 24, 2006, through May 26, 2006, and audited the procedures in effect at that time.

In our opinion, the existing policies and procedures for the administration of the procurement and support services function were, for the most part, effective. However, the controls over evidence of small business preference, contractor certification of recycled material, notification of contract awards, and the campus motor vehicle inspection program required management attention.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

SPECIAL PURCHASING ISSUES [6]

Buyers were not reverifying small business status for vendors that existed prior to the system conversion to PeopleSoft. Although the campus online vendor registration system automatically verified small business certification with the California Department of General Services for vendors subsequent to the campus PeopleSoft conversion, buyers were not reverifying vendors entered into the system prior to PeopleSoft to see if they still met small business status on new purchase orders. In addition, required contractor certifications were not consistently obtained for the recycled content of commodity purchases that were not subject to bid.

SPECIFIC CONTRACT ISSUES [7]

Department of Fair Employment and Housing contract notification requirements were not met for 20 of the 25 contracts reviewed due to an error in a Common Management Systems report.

MOTOR VEHICLE INSPECTIONS AND USE [8]

The campus motor vehicle inspection program did not ensure adequate preventative maintenance for all campus vehicles. Prescribed preventative maintenance was not performed for 3 of 19 passenger vehicles and one of three gas carts reviewed.

INTRODUCTION

BACKGROUND

In 1986, Senate Bill (SB) 1828 extended indefinitely certain California State University (CSU) delegations of authority concerning purchasing and contracting activities, motor vehicle inspections, and real and personal property transactions. The bill's intent was to promote greater economy and efficiency in CSU operations and was expanded by Assembly Bill (AB) 1191 in 1993. The bill also added section 89045(d) to the Education Code:

(d) In addition, the internal audit staff shall perform audits, at least once every five years, of the activities of the CSU pursuant to Sections 89031.5, 89036, 89046, and 89048 of the Education Code and Section 11007.7 of the Government Code.

Executive Order (EO) 615, *Delegation of Acquisition Authority for Personal Property and Services*, dated March 23, 1994, delegated the procurement authority granted to the CSU under AB 1911 to campus presidents. EO 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, superseded EO 615 with expanded provisions contained in the newly created *CSU Policy Manual for Contracting and Procurement (PMCP)*. EO 775, *Acquisition of Personal Property and Services*, dated June 6, 2001, superseded EO 667 to include delegation of authority to acquire information technology resources. EO 760, *Procurement Cards*, dated October 16, 2000, delegated authority for the use of procurement cards to campus presidents.

The *CSU PMCP* states that CSU purchasing and contracting policies are adopted to form compliance with a variety of statutory and policy provisions found in the State of California statutory codes (i.e., Education Code, Public Contract Code, Government Code, etc.); Title 5, California Code of Regulations; the Standing Orders and Resolutions of the Board of Trustees (BOT); specific Trustee policy issued via chancellor Executive Orders and administrative policy memoranda. CSU contracting and procurement policies encompass the following fundamental principals:

- ▶ Recognition that the basic mission of the CSU is to support the teaching, research, and public service requirements for higher education for the people of the State of California.
- ▶ Recognition that the continued development and refinement of purchasing policies in accordance with good business judgment and best business practices is paramount to the effective and efficient total operations of the CSU.
- ▶ The firm belief that it is in the best interest of the CSU to limit, as much as possible, prescriptive policies and regulations and to provide maximum flexibility to, and accountability for, the adoption of local campus policies and procedures to ensure the cost effective operation of campus business.
- ▶ Recognition that the policies contained in the *CSU PMCP* are intended to establish a baseline for compliance with state law and Trustees policy. It is the responsibility of the campus to determine the disposition of any issue not specifically addressed in the *CSU PMCP* or otherwise prescribed in law or regulation.

The *CSU PMCP* further states that the CSU is committed to maintaining high standards of performance based upon fair, ethical, and professional business practices. It is expected that each campus president and administrative staff will develop and adopt local campus policies and operational procedures, which further the implementation of Trustee policy presented within the *CSU PMCP*.

EO 691, *Motor Vehicle Inspections* dated November 23, 1998, issued in response to our 1996 review, updated and streamlined prior motor vehicle requirements. The EO directs each campus to implement a motor vehicle inspection program, specifies eight guidelines that should be included, directs the president to assign the function to an individual, and requires that the chancellor's office be notified of the individual assigned. CSU policy concerning the use of motor vehicles is codified in *CSU Use of University and Private Vehicles Policy Guidelines* booklet dated March 2002, which was issued via Technical Letter 2002-16 from human resources administration.

EO 669, *Leases*, dated May 1, 1997, delegated the authority to execute leases of real property to campus presidents as either lessor or lessee without approval by the Office of the Chancellor subject to certain limitations and superseded a prior EO issued in 1983. The EO requires the use of standard provisions from model lease agreements, an assessment of risk of liability potential for each lease agreement, a competitive process for leasing to for-profit enterprises, an accounting for leases in the campus financial records, and maintenance of a central repository for all current lease agreements.

EO 409, *Purchase, Sale, Lease, and License of Personal Property*, dated January 5, 1983, delegated authority to sell or exchange personal property to campus presidents and has been superseded except for Item B. The EO permits the sale or exchange of personal property when the campus president determines it is in the best interest of the CSU and the transaction is based on fair market value.

State University Administrative Manual (SUAM) §9018, *Acquisition and Granting of Easements and Acceptance of Quitclaims*, sets forth the processing guidelines and responsibilities for such property transactions by the campus and the land records staff of the chancellor's office Capital Planning, Design and Construction department.

The primary objective in this audit will be to review and analyze activities to assure that the CSU has acted responsibly under the delegations of authority listed in Executive Orders 775, 760, 691, 669, and 409 and applicable *CSU PMCP* and SUAM §9018 requirements. Specific areas to be covered will include, but not be limited to: certain purchasing and contracting issues; commodity, information technology resources and services acquisitions; consultant contracts; service orders; small business and other special purchasing issues; motor vehicle inspections and use; agreements and leases; leases of real property as either lessor or lessee; easements, right-of-way, and quitclaim transactions; and the sale or exchange of real and personal property.

PURPOSE

Our overall audit objective was to review and analyze activities to assure that the CSU has acted responsibly under the *Delegations of Authority* established by SB 1828 (1986) and expanded by AB 1191 (1993) and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of procurement activity provide an effective internal control environment, adequate local policies and operational procedures, current written delegations, and observance of good business practices in compliance with CSU policy.
- ▶ Sourcing options and alternatives are used to maximize purchasing leverage, achieve discounts, and reduce administrative costs; bidding requirements are enforced and adequately controlled; and campus policy maximizes advertising in the California State Contracts Register.
- ▶ Methods used to execute low-value purchases are properly delegated and adequately controlled and campus use of service orders is appropriate.
- ▶ Vendor protests, disputes, complaints, and exclusion from bidding are handled in accordance with CSU policy and maintenance of vendor data is adequate.
- ▶ Efforts are made to meet Disabled Veteran Business Enterprise (DVBE) and Buy Recycled goals; purchasing preferences are properly granted; and DVBE, small business, and Buy Recycled reporting is timely, accurate, and supportable.
- ▶ Purchase agreements are properly executed and include required conditions, provisions, certifications, and insurance requirements, and Department of Fair Employment and Housing contract notification requirements are met.
- ▶ The campus motor vehicle inspection program and use of CSU-owned vehicles comply with CSU policies regulations, including the designation of a vehicle inspector.
- ▶ Leasing activities are adequately controlled and comply with CSU policy, and state regulations and leases are properly executed.
- ▶ The campuses and the chancellor's office correctly acquired and granted easements, rights-of-way and quitclaims, and the sale or exchange of personal property complies with CSU policy and the Education Code.

SCOPE AND METHODOLOGY

The scope of the audit, as presented at the February 1, 2006, meeting of the Committee on Audit, included, but was not limited to, the review of procurement, the use of the California State Contracts Register, recycling efforts, motor vehicle use, leasing activities, and rights of way. *Delegations of Authority* is a mandated audit and is required by the Education Code at least once every five years.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, BOT policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures in effect from January 2005 through March 2006. In instances when it was necessary to review annualized data, fiscal year 2005/06 was the primary period reviewed.

We focused primarily upon the internal administrative, compliance, and operational controls over delegation of authority and contracting activities, motor vehicle inspection, and real and personal property transactions. Specifically, we reviewed and tested:

- ▶ Specific purchasing, contracting, and leasing activities, delegations, and limitations.
- ▶ Sourcing options and alternatives.
- ▶ Bidding procedures and exceptions.
- ▶ Contract advertising and reporting practices.
- ▶ Low-value purchase methods and controls.
- ▶ Handling of vendor protests, disputes, and complaints.
- ▶ Maintenance of vendor data.
- ▶ Granting of purchase preferences.
- ▶ Preparation of DVBE, small business, and Buy Recycled reports and goal attainment.
- ▶ Execution of purchase agreements and leases.
- ▶ Motor vehicle inspection and use policies and controls.
- ▶ Easements, rights-of-way, and quitclaims and the sale or exchange of personal property.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SPECIAL PURCHASING ISSUES

SMALL BUSINESS

Buyers were not reverifying small business status for vendors that existed prior to the system conversion to PeopleSoft.

The online vendor registration system automatically verified small business certification with the California Department of General Services (DGS) for vendors subsequent to the campus PeopleSoft conversion. However, buyers were not reverifying vendors entered into the system prior to PeopleSoft to see if they still met small business status on new purchase orders. As a result, there was no assurance that annual reporting only included purchases awarded to small businesses. There were approximately 1,000 small business vendors in the system.

California State University (CSU) Policy Manual for Contracting and Procurement (PMCP) §216 states, in part, that campuses must report annually on the number and amount of contracts and purchase orders awarded to small businesses to the Office of Small Business Certification and Resources (OSBCR).

The purchasing manager stated that the vendor files for small business certification needed to be updated and buyers needed to verify small business certifications.

Failure to confirm the small business status of vendors increases the risk of inaccurate reporting to the OSBCR.

Recommendation 1

We recommend that the campus ensure that small business requirements are verified for all small business vendors.

Campus Response

We concur. Purchasing has run a download of DGS small business vendors and compared it to a download of our campus vendor file. We will further strengthen our procedures to ensure that small business vendor certifications are verified. Estimated date of completion is September 30, 2006.

RECYCLED MATERIALS

Required contractor certifications were not consistently obtained for the recycled content of commodity purchases that were not subject to bid.

Public Contract Code §12205 states that contractors shall be required to certify in writing the minimum percentage, if not the exact percentage, of post-consumer and secondary material in the

materials, goods, or supplies provided or used. This certification shall be furnished under penalty of perjury. The certification shall be provided regardless of content, even if the product contains no recycled materials.

The purchasing manager stated that compliance with this requirement needed strengthening.

Failure to consistently obtain contractor certifications for the recycled content of commodity purchases results in non-compliance with state regulations and inaccurate Buy Recycled reporting.

Recommendation 2

We recommend that the campus strengthen procedures over the monitoring of contractor certification to ensure contractors certify recycled content of commodity purchases.

Campus Response

We concur. Purchasing will reissue procedures to clarify the requirement for obtaining written certification of the percentage of recycled content on those commodities, which have been identified as having qualified as a recycled product. Purchasing will also remind buyers to obtain certification of the percentage of recycled content. An in-service training session to demonstrate “how to” verify these certifications has been planned for mid October. Estimated date of completion is October 30, 2006.

SPECIFIC CONTRACT ISSUES

The Department of Fair Employment and Housing (DFEH) contract notification requirements were not met due to an error in a Common Management Systems (CMS) report.

Our review of 25 contracts that required DFEH contract notification disclosed that notification had not been made for 20 of the contracts.

The *CSU PMCP* §404 states that campuses shall give written notice at least quarterly to the DFEH of all contracts (but not purchase orders) over \$5,000.

California Code of Regulations Title 2 §8117.5, *Fair Employment and Housing Commission*, states that contract awarding agencies shall give written notice to the administration with ten working days of all contracts over \$5,000 (A memo from the DFEH, dated December 5, 1996, stated that the CSU could submit written notification on a quarterly basis).

The purchasing manager stated that a quarterly report was submitted to the DFEH, but due to a system problem, not all required contracts over \$5,000 were included in the report. She added that the PeopleSoft delivered CMS report was not retrieving all of the appropriate purchase order types.

Failure to report awarded contracts to the DFEH, as required, limits the ability of that agency to monitor state purchasing procedures for discriminatory practices.

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Recommendation 3

We recommend that the campus follow through to ensure that the CMS-delivered report is corrected so that all service contracts over \$5,000 are reported to the DFEH.

Campus Response

We concur. Purchasing will continue to work with CMS central to facilitate the correction of this systemwide CMS-delivered report. In the meantime, we have developed a local report, which does accurately pull the required information. Corrective action on this issue is complete.

MOTOR VEHICLE INSPECTIONS AND USE

The campus motor vehicle inspection program did not ensure adequate preventative maintenance for all campus vehicles.

We found that a 4,000 miles/6-months maintenance was not performed for 3 of 19 passenger vehicles reviewed, although a 12,000 miles/12-months maintenance was performed. In addition, we found that a 4,000 miles/6-months maintenance was not performed for one of three gas carts reviewed.

The California State University, Long Beach *Motor Vehicle Inspection Program* states that in order to guarantee the maximum useful life of state-owned or leased vehicles, a maintenance service is required every 4,000 miles or six months, and at 12,000 miles or 12 months, whichever comes first.

Executive Order 691, *Motor Vehicle Inspections*, dated November 23, 1998, states that the campus president is responsible for the implementation of a campus motor vehicle inspection program and shall ensure that all aspects of the motor vehicle inspection program guidelines are followed.

The director of facilities management stated that the mechanics had been notified in the past to comply with the maintenance schedule and added that he was unaware of these occurrences.

Failure to ensure that prescribed preventative maintenance is performed on all campus vehicles increases the risk of poorly maintained motor vehicles and negatively impacts driver safety.

Recommendation 4

We recommend that the campus strengthen procedures for better follow-up on prescribed preventative maintenance.

Campus Response

We concur. Facilities management has strengthened its procedures to facilitate communication with campus departments who are delinquent in bringing their vehicles to the auto shop for preventative maintenance at the required intervals. Failure to comply may result in driving privileges being revoked. Corrective action on this issue is complete.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
F. King Alexander	President
Elizabeth Beall	Purchasing Manager
Scott Charmack	Associate Vice President, Physical Planning and Facilities Management
William Griffith	Vice President, Administration and Finance
Tanya Ho	Senior Internal Auditor
Charles Hughes	Director, Procurement and Support Services
Joseph Latter	Associate Vice President, Financial Management
Greg Pascal	Communications and Records Supervisor
Robert Quirk	Director, Facilities Management
Lauri Reilly	Accounts Payable Manager
Aysu Spruill	Director, Internal Auditing Services
Suzanne Wallace	Assistant Director, Administrative Operations Facilities Management

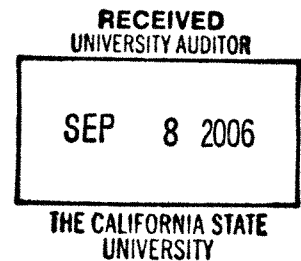


CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

September 1, 2006

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore
Long Beach, California 90802



Re: Response to Delegations of Authority Audit # 06-15

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "William H. Griffith".

William H. Griffith
Vice President for Administration and Finance

Enclosure

IA-0110

cc:

F. King Alexander, President
Robyn R. Mack, Associate Vice President, University Services, and Chief of Staff
Joseph A. Latter, Associate Vice President, Financial Management
Scott R. Charmack, AVP, Physical Planning, and Facilities Management
Aysu Spruill, Director, Internal Auditing Services

**DELEGATIONS OF AUTHORITY
CALIFORNIA STATE UNIVERSITY,
LONG BEACH**

**Report Number 06-15
August 4, 2006**

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THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 28, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

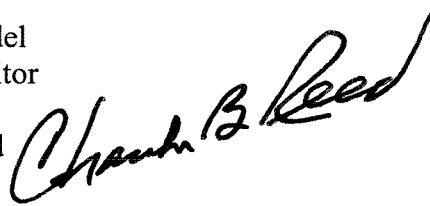
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-15 on *Delegations of Authority*,
California State University, Long Beach

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of September 28, 2006, I accept the response as submitted with the draft final report on *Delegations of Authority*, California State University, Long Beach.

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. F. King Alexander, President
Mr. William H. Griffith, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS